INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: R. L. Brownlee, Acting Secretary of the Army *Brownlee*

SUBJECT: FY 2003 Statement of Assurance on Management Controls

- The Federal Managers' Financial Integrity Act (FMFIA) requires the Department of Defense (DoD) and other Federal Agencies to assess their management controls and submit an annual Statement of Assurance. Statements from DoD Components support the DoD statement.

- The Army's FY 2003 Statement of Assurance is attached. All available information indicates Army's management controls provide reasonable assurance, as specified in the FMFIA, with the exception of material weaknesses identified in this report.

- The Army's management control program and the process used to conduct this evaluation are described at Tab A.

- Information on Army material weaknesses is also attached. Tab B-1 provides a list of the material weaknesses being reported. Tab B-2 and Tab B-3 provide descriptions of uncorrected and corrected material weakness. Tab B-4 provides examples of management control accomplishments.

- The Army Auditor General's independent assessment of the Army's management control process is at Tab C.

COORDINATION: NONE

Attachments:
As stated

Prepared By: Mr. William Harris, (703) 693-2770

UNCORRECTED MATERIAL WEAKNESS

Title and Description of Material Weakness: Contract Administration of Service Contracts. The US Army Audit Agency (USAAA) identified a significant weakness in administering service contracts. Service contracts represent an ever-increasing percentage of the overall contract dollars and now have surpassed the dollars awarded under major weapon systems programs.

Significant audit findings include ineffective planning for quality assurance requirements. Although contracting officers generally appointed quality assurance personnel for contracts, they often did not adequately train the quality assurance personnel about their responsibilities and limitations of authority. They also did not make sure evaluators were versed in proper quality assurance procedures and that the quality assurance evaluators understood specific contract requirements.

In addition, there was a lack of surveillance plans overall, resulting in a lack of a systematic inspection system and ineffective documentation of contract performance. Proper quality assurance procedures require that surveillance plans serve as roadmaps for monitoring contractor performance. This is key element of establishing strong internal controls that ensure the Army receives value for its serve-contracting dollar. Due in part to the lack of documentation, procedures for validating and approving contractor invoices sometimes were not adequate. In addition, responsibilities and processes for approving invoices were not properly defined.

Several Major Army Commands (MACOM) have actions ongoing to improve various aspects of contract administration. These actions are steps in the right direction but an overall strategy for administering service contracts is needed.

Functional Category: OSD-Contract Administration
                            Army-Acquisition

Pace of Corrective Action:

>   **Year Identified:** FY 2003

>   **Original Targeted Correction Date:** Not Applicable.

>   **Targeted Correction Date in Last Year's Report:** Not Applicable.

>   **Current Target Date:** 2nd Qtr FY 2005

>   **Reason for Change in Date(s):** Not Applicable.

Component/Appropriation/Account Number:

($000s)
Appropriation(s)   FY03   FY04   FY05   FY06   Cost-To-Complete   Total
TBD

Validation Process: The USAAA will review the effectiveness of these corrective actions in resolving the material weakness and track milestone completion.

Results Indicators: The Army has addressed every USAAA finding and initiated corrective action.

Source(s) Identifying Weakness: USAAA audit report dated September 23, 2002, "Managing Service Contracts," Audit Report A-2002-0580-AMA.

Major Milestones in Corrective Action:

A. **Completed Milestones:** Not Applicable.

B. **Planned Milestones (Fiscal Year 2004):**

Date:	**Milestone:**
05/04	Issue guidance to the acquisition community instructing contracting officers to detail the appropriate responsibilities and limitations of the monitors in contracting officer's representative (COR) appointment letters.
05/04	Instruct contracting officers to orient evaluators on the specific types of contracts and specific contract links.
09/04	Review the management control checklist and included key questions for reviewing, documenting, and adjusting contracting requirements.
07/04	Clarify existing guidance on quality assurance surveillance plans. Recommend to MACOMs they review guidance on surveillance when performing contract management reviews.
07/04	Issue guidance to (1) require contracting officers to periodically review the COR/monitor contracts files and provide the results of the review to the requiring activity director and (2) ensure effective invoice review procedures are utilized when they develop the statement of work and the surveillance plan. Guidance will further indicate that it may be more appropriate to put requirements for the contractor's invoice preparation and submission in Section G (Contract Administration) of the contract putting emphasis on

C. Planned Milestones (Fiscal Year 2004): (Continued)

<u>Date:</u>	<u>Milestone:</u>
	assignment of responsibility for review to the position and not a given person's name.
09/04	Issue guidance requiring contracting activities to incorporate instructions for reviewing contract requirements into surveillance plans and appointment letters.
09/04	Advise the customer's Career Program Managers on recommended training to address improvements affecting contract services and review COR cources to determine if it monitors making recommendations to the Defense Acquisition University or the Army Logistics Management College on course material that affects contract services.
09/04	Incorporate appropriate team-based approach in the Army's strategy for administering service contracts. Review self-assessment tools and other tools to incorporate, as appropriate, in the Army's strategy for administering service contracts.
09/04	Review staffing levels in the contract administration function to determine if appropriate and take immediate action.
4th Qtr FY 2004	Incorporate increased awareness in oversight reviews to make sure that the education process continues on the importance of effective contract administration practices.

D. Planned Milestones (Beyond Fiscal Year 2004):

<u>Date:</u>	<u>Milestone:</u>
2nd Qtr FY 2005	Issue guidance to the acquisition community instructing contracting officers to detail the appropriate responsibilities and limitations of the monitors in COR appointment letters.
2nd Qtr FY 2005	USAAA validation.

<u>Status of Participating Functional Organizations</u>: Not Applicable.

<u>Point of Contact</u>:   Office Address: SAFM-FOI, 109 Army Pentagon
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UNCORRECTED MATERIAL WEAKNESS

Title and Description of Material Weakness: Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS). SPS was intended to be fielded as a paperless contract writing system using electronic data feeds to create electronic images of contracts viewable by paying offices and to populate CAPS data fields to effect payments. Army contracting offices currently use SPS to write contracts for vendors at Army posts, camps and stations with the Defense Finance and Accounting Service (DFAS) using CAPS to process payment information for most of these contracts. The Army is experiencing numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices has not been established to support timely and accurate payments of contractors in accordance with 5 Code of Federal Regulations Part 1315 (Prompt Payment).

Use of contract images posted in the Electronic Document Access for use by DFAS paying offices has not yet proven reliable, requiring the contracting offices to forward printed copies of the contracts to the paying office. Furthermore, the electronic data file of contract information created by the SPS interface program has been only sporadically successful, requiring manual entry of vendor payment data upon receipt of the paper contract when the electronic data feed fails. This problem has directly contributed to the late payment interest penalties of about $470,000 in FY 2001 by the Army. In many of these cases where the SPS interface failed, the paper contract is received well after goods and services are provided and accepted to the government. If not corrected, Army contracting offices will be required to forward paper contracts to paying offices increasing the likelihood of erroneous contractor payments, and unnecessary interest payments. In addition, contracting and paying personnel will not meet the goal of paperless contracting, resulting in other inefficiencies in processing these payments.

To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA (AL&T)) and DFAS entered into a Memorandum of Agreement (MOA) to address data migration and interface requirements for information from SPS to CAPS.

Functional Category: OSD - Contract Administration
                          Army – Acquisition

Pace of Corrective Action:

    Year Identified: FY 2001

    Original Targeted Correction Date: FY 2002

    Targeted Correction Date in Last Year's Report: FY 2004.

    Current Target Date: 4th Qtr FY 2004

Reason for Change in Date(s): Progress has been made towards achieving MOA Certifications. However, the pace has been extremely slow**.** DFAS and Army have looked at the process and have determined that a revised approach is warranted. Originally, the certification schedule tested Army sites and DFAS payment offices in no particular order. There are several sites and payment offices where testing and certification was performed with little or no issues. There were other contracting sites and payment offices that were tested and retested with the same or worse results. With the revised approach, DFAS and Army will concentrate on one payment office and the testing and certification of a selected contracting office. Once the contracting office is certified, then the next selected contracting office will be tested and certified with same payment office. The testing and certification process will continue in this fashion for a month. DFAS and Army will review the results and determine if the revised testing/certification procedure is successful or will there be a need for further alteration to the testing method. The schedule is contingent on the SPS Program Office delivering to the Army SPS 4.2 version 2 in September 2003. The new version will replace the current SPS-CAPS interface, which is a contributing factor inhibiting the Army from consistently passing data from SPS to CAPS. Upon government acceptance, the Army will deploy the new version and begin the process of converting sites from the old interface to the new XML-Defense Electronic Business Exchange (DEBX) interface.

Component/Appropriation/Account Number:

($000s)

Appropriation(s)	FY03	FY04	FY05	FY06	Cost-To-Complete	Total
OMA	$25	$50	$50	$25	$125	$275

Validation Process: The US Army Audit Agency (USAAA) will review the effectiveness of these corrective actions in resolving the material weakness.

Results Indicators: This process will update the payment and accounting system and provide timely and accurate payment to the vendor. Additionally, the process allows contracting personnel to realize processing efficiencies.

Source(s) Identifying Weakness: Accounting and commercial accounts offices.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
04/01	DFAS established a working group task force with representatives from OASA (ALT), OASA (FM&C) and SPS Program Management Office to address problems encountered and to coordinate a Paperless Contracting MOA between Army and DFAS.

A. Completed Milestones: (Continued)

Date:	Milestone:
11/01	Paperless Contracting MOA signed between Army and DFAS.
12/01	Initial implementation of the Paperless Contracting Memorandum of Agreement between Army contracting Offices and DFAS.
06/02	SPS Version 4.2, Increment 1 fielding begins. This version will include enhancements that are expected to facilitate the Army payment process. Deployment to continue through 2nd Quarter FY 03.
07/02	SPS Version 4.2, Increment 2 awarded with Adapter. The Adapter will replace SPS Interface to CAPS. Delivery to Government is scheduled for early 3rd Quarter FY 2003.
03/03	SPS Version 4.2, Increment 1 Army deployment complete.
04/03	Adapter delivered to Government. Test & acceptance performed.
08-09/03	Adapter with SPS v4.2, Increment 2 available for Army deployment.
09/03	Deployment starts.

B. Planned Milestones (Fiscal Year 2004):

Date:	Milestone:
2nd Qtr FY 2004	Adapter deployed and operational.
4th Qtr FY 2004	USAAA validation.

C. Planned Milestones (Beyond Fiscal Year 2004): Not Applicable.

Status of Participating Functional Organizations: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

Title and Description of Material Weakness: Automated Mobilization System. Army mobilization exercises in 1976, 1978, & 1980 highlighted that the capability did not exist within the Reserve Component structure (Army National Guard (ARNG) and Army Reserve (USAR)) for maintaining mobilization essential data, and the ability to rapidly respond to mobilization requirements was lacking. Managers at mobilization stations and transportation agencies did not have access to timely and accurate information necessary for the mobilization decision-making process. These mobilization needs were to be originally satisfied through the Continental Army Management Information System initiated in 1979. In August 1986 the Army restructured its Reserve Component Automation System (RCAS) and in February 1988 the RCAS project effort was assigned to the Chief, National Guard Bureau (NGB). RCAS will satisfy the automation requirements of the Reserve Component for day-to-day operations and will significantly enhance their mobilization preparedness and mobilization execution capability. It provides timely and accurate data that can be accessed by Army systems and activities involved in the decision-making mobilization process for the Reserve Component.

Functional Category: OSD - Force Readiness
                                      Army - Mobilization

Pace of Corrective Action:

   Year Identified: FY 1988

   Original Targeted Correction Date: FY 1990

   Targeted Correction Date in Last Year's Report: FY 2003

   Current Target Date: 4th Qtr FY 2004

   Reason for Change in Date(s): Fielding of RCAS was completed in FY 2003 with the deployment of Increment 8 (the final increment) in Sep 2003**.** US Army Audit Agency (USAAA) will validate the effectiveness of corrective actions to resolve the weakness. This validation requires that users in the field have ample time to download data, conduct tests and, where necessary, conduct training on the new software provided in Increment 8. For this reason closure of the weakness moves to FY 2004.

Component/Appropriation/Account Number:

			($000s)			
Appropriation	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**Cost To Complete**	**Total**
OMAR	$8,826	$17,523	N/A	N/A	N/A	$41,889
OMNG	$15,246	$19,183	N/A	N/A	N/A	$60,666
OPA	$74,697	$45,789	N/A	N/A	N/A	$307,086

Note: FY 2003 includes cost to complete system acquisition and begin transition to the sustaining phase. It also includes an $8.5M congressional add to enhance the RCAS in the Pacific.

Validation Process: Involves field and functional proponents' input; benefits analysis; independent verification and validation; technical test and evaluation; operational testing; field participation in the evaluation process; RCAS has an established and approved Acquisition Program Baseline which details the Army and DoD Major Automated Information Systems Review Council (MAISRC) review cycle for each incremental release. Defense Acquisition Executive Summary (DAES) Quarterly Reports are submitted to the MS Decision Authority providing updated status. In addition, periodic General Officer Steering Committee meetings are held to monitor the progress. USAAA will validate final corrective actions.

Results Indicators: The Army will be able to more effectively plan and execute mobilization of Army Reserve and Army National Guard (ARNG) contingency forces.

Source(s) Identifying Weakness: GAO audit report, "General Management Review of the Reserve Components," November 1988.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
3/88	Effect interim actions and controls to resolve the immediate deficiencies: a. Place management control of RCAS program with the Chief, NGB; b. New charter approved by the Secretary of the Army and forwarded to Congress; c. Army Reserve General Officer assigned as RCAS Program Manager.
09/89	Develop an automated information system to satisfy long-range permanent needs for mobilization, administration, and management requirements of the ARNG and for USAR day-to-day operations: a. Complete Functional Description; b. Issue draft request for proposal.
09/89	Army MAISRC Milestone I & DoD MAISRC Milestone I.
09/91	Army MAISRC Milestone II.
03/92	DoD MAISRC Milestone II.
02-03/95	Red Team reviewed the program at the request of Chief, NGB and recommended changes to the overall program to contain cost in 1996 and leverage new technology. The team recommended changes to the direction of the overall program including moving from an x-terminal to a personal computer base, removing multi-level security requirements,

A. Completed Milestones: (Continued)

Date:	Milestone:
	providing a separate system for classified data and centralizing data at State Area Commands and Major USAR Commands.
09/95	Validation Assessment Team formed to validate recommendations and perform necessary contracting actions to effect program restructure. Revised program was briefed and approved by the General Officer Steering Committee and the DoD MAISRC.
03/96	Awarded contract Modification/Proposal.
09/96	Received Overarching Integrated Process Team (OIPT) MAISRC approval to field Increment 1 for Commercial off-the-shelf (COTS) hardware and software and Wide Area Network telecommunications.
03/98	Received OIPT MAISRC fielding approval for MS IIIb for Database servers, Software Pilot project, some Logistics functionality and Government off the shelf (GOTS) software.
03/00	MS Decision point for Increment 3 MS IIIc covering Force Authorization, Training and Security functionality.
09/00	Completed fielding of Increment 3.
03/01	Completed hardware fielding 18 months ahead of schedule
09/01	MS Decision Review IIId for Increments 4 / 5 completed for Personnel, Mobilization Planning, Force Authorization, Training Management (GOTS), and Occupational Health (COTS functionality). Approved fielding of Increments 4/5 pending DoD Chief Information Officer (CIO) Certification of Increments 4/5 (Certification received Jul '01). Fielding of Increments 4/5 started.
09/01	MS Decision MS IIIe point for Increment 6 on Safety, Force Modernization, Logistics (GOTS), and Mobilization Planning functionality.
03/03	MS IIIf fielding decision for Increment 7 on Mobilization Planning, Safety, Logistics (GOTS) functionality.

A. Completed Milestones: (Continued)

Date: **Milestone:**

09/03   MS IIIg – fielding decision for Increment 8 on Mobilization, Force Management, Safety, Occupational Health Management, and Military and Civilian Personnel functionality).

B. Planned Milestones (Fiscal Year 2004):

Date: **Milestone:**

1st Qtr FY 2004   System Sustainment to begin 1 Oct FY04

4th Qtr FY 2004   USAAA validation.

C. Planned Milestones (Beyond Fiscal Year 2004): Not Applicable.

Status of Participating Functional Organizations:

Chief, NGB: Support Assured
Director, ARNG: Support Assured
Chief, USAR: Support Assured
ODCS, G4: Support Assured
ODCS, G-6: Support Assured

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UNCORRECTED MATERIAL WEAKNESS

Title and Description of Materiel Weakness: In-transit Visibility (ITV) Policies/Standards. Both the Army and Joint Staff perspectives are that the ITV program lacks DoD level policy that identifies standards, uniformity and consensus in objectives, equipment standards, and functional requirements. The Army has taken the lead in the Outside Continental US (OCONUS) area of responsibility (AOR) in deploying and successfully using Automatic Identification Technology (AIT) to obtain in-transit visibility of materiel and personnel in both peacetime and contingency operations. However, the issue exists that there is no joint doctrine to mandate AIT for ITV or hardware/software standards to ensure interoperability. During the current operation, US Central Command (CENTCOM) identified a warfighter requirement for information available only through use of AIT and specifically requested Radio Frequency Identification (RFID) AIT implementation in the AOR for all services.

To support the Army's concept of operations, we require visibility of the entire supply chain (foxhole to the supplier). This requires tracking the container/pallet as well as having "in-the-box" visibility. This "in-the-box" visibility is key to Army logistics transformation requirements that reduce the logistics footprint by placing a premium on distribution of limited available assets to the unit whose need is most critical to the mission. This "in-the-box" visibility facilitates redistribution of parts to higher priority units from both CONUS and OCONUS assets.

Historically, the Air Force and Navy, as the primary transporters of materiel and equipment in theater, are only concerned with tracking those items at the container or pallet level. This tracking can be done at a low technology level and without the infrastructure investment. RFID technology enhances "in-the-box" visibility of container and pallet shipments moving throughout the DoD transportation system. RFID has been used in support of Somalia, Haiti, Battlefield Distribution Demonstration, and most currently, Operation Joint Endeavor. As stated in USCINCENT Message, 311340Z Jul 02, the Combatant Commander, CENTCOM, will require all air pallets, containers, and commercial sustainment moving to/from the theater and intra-theater movements to be tagged with RFID at origin for asset and ITV tracking in the Combined/Joint Operations Area (CJOA).

The Army G-4 recommended solution to the ITV materiel weakness is for DoD to establish policy that identifies uniform standards, objectives and functional requirements. We also recommend the J-4 continue the ITV Working Group meetings, consisting of representatives from each of the Services and that they expand the scope of the ITV Work Group to address and define the Service requirements.

Functional Category: OSD - Supply Operations
　　　　　　　　　　　　　Army - Supply Activities

Pace of Corrective Action:

   Year Identified: FY 2002

   Original Targeted Correction Date: FY 2002

   Targeted Correction Date in Last Year's Report: Not Applicable.

   Current Target Date: To Be Determined.

   Reasons for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s):	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**Cost-To-Complete**	**Total**
None						

Validation Process: Validation of corrective actions will be accomplished by the US Army Audit Agency (USAAA).

Results Indicators: Corrective actions will improve the capability to see timely and accurate information concerning unit strategic deployments, sustainment cargo, intra-theater moves, and CONUS non-unit cargo movements.

Source(s) Identifying Weakness: USCINCENT Message, 311340Z Jul 02, Subject: OEF Joint Logistics Information Requirements.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	**Milestone:**
09/02	J-4 convened a JTAV Work Group to determine what the services are doing to comply with the CENTCOM Combatant Commanders requirement for ITV in the CENTCOM AOR.
10/02	Defense Supply Center Philadelphia identified key Class I subsistence prime vendors and taken action to modify contracts to contain an RF protocol requiring them to generate and affix RF tags to all containerized shipments to CENTCOM.
10/02	CENTCOM identified 18 Aerial Ports of Debarkation (APODs) requiring RFID read/write capability and 13 Seaport of Debarkation (SPODs) requiring read only

A. Completed Milestones: (Continued)

Date:	Milestone:
	capability. One of the APODs already has read/write capability; five others have read only capability. JCS, J-4 and CENTCOM provide classified listing of sites to Office of Primary Responsibility (OPR) on request.
11/02	Army and Navy with TC-AIMS II revised fielding plans pending outcome of TC-AIMS II Milestone III decision. Execute as approved.
01/03	Created DA AIT Senior Steering Committee to transitioning PM AIT from product-to-program office.
02/03	OSD coordinated Distribution of available RFID Tags for OIF.
03/03	Kuawait provided dedicated ITV servers. Fifty-three RFID sites in AOR supported with ITV reader capability. OSD Business Case Analysis on RFID/ITV.
05/03	Milestones for CENTCOM/PACOM AORs included 19 new sites in Iraq, 40 TC-AIMS II sites, 33 reader stations, and 4 sites in PACOM.
06/03	Working with USAREUR ITV to implement common security profile/configuration management across all ITV servers.

B. Planned Milestones (Fiscal Year 2004):

Date:	Milestone:
10/03	Under Secretary of Defense approved an ITV policy by signing memo dated 2 October 2003, subject "Radio Frequency Identification (RFID) Policy" which provides guidance to establish technology and standards, initiate demonstrations, solicit comments, review lessons learned and implement strategy by June 2004.
06/04	Implement OSD RDIF policy.
TBD	Review business processes/policy for systemic weaknesses.
TBD	Apply business process reengineering to enable Army to achieve ITV.

B. Planned Milestones (Fiscal Year 2004): (Continued)

    <u>Date:</u>   <u>Milestone:</u>

    TBD   Army coordination with PM GATES to implement a file level transfer of data from GATES to government owned RF tag write software. Start initial efforts to modify client software. UPDATE: AMC developed software is complete and in testing.

C. Planned Milestones (Beyond Fiscal Year 2004): To Be Determined.

<u>Status of Participating Functional Organizations</u>: Army – Supply activities and OSD functional elements to be determined.

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UNCORRECTED MATERIAL WEAKNESS

Title and Description of Material Weakness: Financial Reporting of Equipment In Transit (Previously In-Transit Equipment Visibility). Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The US Army Audit Agency (USAAA) Audit Report AA 96-156 showed that as of July 31, 1995 about 69 percent of the in-transits sampled in CBS-X were invalid. The equipment involved had been received and reported as on-hand by the receiving units, but the receipt transactions did not close out the shipment (in-transit) records. As a result, the Army did not have reliable data on the value of equipment in-transit, and the value of in-transits reported on the Army's financial statements was misstated by a significant but unknown amount. Also, units periodically experienced unnecessary delays when requisitioning equipment because invalid in-transit records caused requisitions to be rejected. This error made it difficult to gain visibility over the total number of major items, determine maintenance requirements, and redistribute equipment.

Functional Category: OSD - Supply Operations
 Army - Supply Activities

Pace of Corrective Action:

 Year Identified: FY 1996

 Original Targeted Correction Date: FY 1999

 Targeted Correction Date in Last Year's Report: FY 2005

 Current Target Date: 4th Qtr FY 2005

 Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s)	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**Cost-To-Complete**	**Total**
To Be Determined						

Validation Process: Validation will be conducted by the Office of the Deputy Chief of Staff, G-4 (ODCS, G-4) and USAAA.

Results Indicators: Corrective actions will reduce the error rate of in-transit asset data to an acceptable level and will improve asset data accuracy in Logistics Integrated Data Base (LIDB), thus improving asset reporting and document closure procedures.

Source(s) Identifying Weakness: General Accounting Office (GAO), GAO/AIMD-93-31, "FINANCIAL MANAGEMENT: Army Lacks Accountability and Control Over Equipment", September 1993; USAAA Audit AA 96-156, "Financial Reporting of Equipment In Transit", June 1996.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
03/96	U.S. Army Materiel Command (USAMC), per request of ODCS, G-4, establishes a Total Package Fielding (TPF) Improvement Product Team (IPT) to review and investigate problems with TPF process and causes of in-transit document closure failures.
09/96	ODCS, G-4 drafted action plan for correcting in-transit visibility problems. USAMC meets with Information Systems Command Software Development Center-Lee (ISSDCL), Logistics Support Agency (LOGSA), Combined Arms Support Command, and ODCS, G-4 to identify and resolve SARSS-O/CBS-X interface problems. ODCS, G-4 meets with LOGSA and ODCS, G-3 to resolve outstanding problems concerning DODAAC/UIC assignment alignment.
03/97	ODCS, G-4 and LOGSA meet to resolve problems and increase priority of Engineering Change Proposal.
08/97	System Change Request for LSSC work written by USAMC.
02/98	Study begun by LOGSA for using Logistics Intelligence File (LIF) rather than CBS-X to track in-transits.
09/98	Initial work on feasibility of using LIF instead of CBS-X to track in-transits completed.
08/99	USAMC begins open TPF document scrub.
03/00	USAMC completes open TPF document scrub deleting all invalid documents from CBS-X.
09/00	ODCS, G-4 and USAMC begins process of deleting invalid documents from CCSS and LIF. Sets new policy and develops in-transit closure requirements for new web-based property book system and WLMP.

05/01	Scrub of open TPF documents in LIF and CCSS completed. USAAA begins validation process of corrective actions.
07/01	USAAA stops validation process when it became apparent that additional work is required to complete TPF and non-TPF documents scrub.
09/01	ODCS, G-4 hosts meeting with USAMC, LOGSA, and USAAA to determine additional work required to close weakness. LOGSA began producing reports necessary for completing remaining document scrubs required by USAAA.
11/01	USAMC completed the scrub of remaining TPF documents. ODCS, G-4 met with USAMC and USAAA to determine best way to scrub 6,000 non-TPF bad documents.
10/02	Army begins non-TPF document scrub. ODCS, G-4 directs USAMC and LOGSA to work with CASCOM to determine why in-transit document follow-up system does not work and recommend fixes. ODCS, G-4 issues policy message directing materiel fielders to close TPF and non-TPF documents upon handoff to units. ODCS, G-4 and HQAMC met with LOGSA to provide guidance on actions to be taken to resolve TPF documents and to request LOGSA to provide statistics on non-TPF documents.
01/03	Property Book Unit Supply-Enhanced (PBUS-E) Web-based Property Book initial fielding begins with projected completion in 2006.
03/03	Meeting with HQAMC, LOGSA, and ASA(FM&C) to discuss if LMP was addressing recommendations in audit. Establishment of the Military Equipment Working Group
04/03	Meeting with HQAMC, ASA(ALT), ASA(FM&C) to further identify LMP issues for maintaining accountability and visibility of records for systems being fielded.
05/03	HQAMC held "Go/No Go Live" meeting on LMP Fielding.
06/03	Initial fielding of Logistics Modernization Program (LMP) begins (USAAA review for "Blue Book" compliance is being worked as LMP is being developed).
07/03	USAAA to issue report on PBUSE for "Blue Book" compliance pertaining to TDA issues.

08/03	Military Equipment Working Group met with Senior Level Steering Group (SLSG) on future actions to be taken by action officers. HQAMC to host meeting with IMMCs TPF and non-TPF documents discussion issue.
09/03	HQAMC to request AMSAA to do study on non-TPF documents and on follow-up procedures

B. Planned Milestones (Fiscal Year 2004):

Date:	**Milestone:**
11/03	Meeting of Military Equipment Working Group to review policy changes.
01/04	Meeting of Military Equipment Working Group to review efforts of record scrub and policy changes.

C. Planned Milestones (Beyond Fiscal Year 2004):

12/04	LMP fielding completed to USAMC.
06/05	Records scrubs completed. Prevention policy issued.
07/05	USAAA validation of records to restart.
4th Qtr FY 2005	USAAA validation completed. Material weakness closed.

Status of Participating Functional Organizations: Functional organizations participating in the correction of this weakness are internal to the Army. Their actions are described in the weakness.

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UNCORRECTED MATERIAL WEAKNESS

Title and Description of Material Weakness: Manpower Requirements Determination System. The Army has not established effective manpower programs for managing and controlling Tables of Distribution and Allowances (TDAs) workload, organizations and manpower staffing, including reductions in force. The current system for manpower requirements determination lacks the ability to link workload, manpower requirements and dollars. Thus, the Army is not capable of rationally predicting future manpower requirements based on workload. As a result, managers at all levels do not have the information needed to improve work performance, improve organizational efficiency, and determine and support staffing needs, manpower budgets, and personnel reductions.

Functional Category: OSD - Personnel/Organizational Management,
Force Readiness
Army - Personnel

Pace of Corrective Action:

   Year Identified: FY 1997

   Original Target Date: FY 2000

   Target Date in Last Year's Report: FY 2005

   Current Target Date: 4th Qtr FY 2005

Reason for Change in Date(s): Not Applicable.

Component/Appropriation:

($000s)

Appropriation(s)	FY 02	FY 03	FY 04	FY 05	Cost-To-Complete	Total
None						

Validation Process: The Office of the Deputy Chief of Staff (ODCS), G-1, and US Army Audit Agency (USAAA) will validate corrective actions.

Results Indicators: Staffing levels of Army organizations will be based on workload associated with valid prioritized missions. Manpower requests contained in Army budget submissions and the dollars required to support the requested level of manpower will be logically developed from specific workload requirements, which directly derive from missions directed or approved by higher headquarters and approved by Headquarters Department of the Army (HQDA).

Sources Identifying Weakness: Numerous USAAA audits and General Accounting Office audit reports published between 1992 and 1997.

Major Milestones in Corrective Action:

A. Completed Milestones:

    Date: **Milestone:**

(**NOTE**: Army was cognizant of shortcomings in implementing its requirements determination processes prior to the declaration of this as a materiel weakness in FY 1997. Due to the refocus in FY 2002 in the material weakness plan corrective milestone actions were revised accordingly to correct this weakness.)

B. Planned Milestones (Fiscal Year 2004):

Date:	Milestone:
03/04	Validate and approve Department of the Army missions.
03/04	Include TDA requirements in the Total Army Analysis process.
09/04	Prioritize and approve all Generating Force manpower requirements.
09/04	Ensure accurate documentation of HQDA validated and approved manpower requirements in Table of Distribution and Allowances (TDA).
09/04	Issue interim change to AR 570-4, Manpower Management, to reflect policy change in approval authority for determining manpower requirements.

C. Planned Milestones (Beyond Fiscal Year 2004):

Date:	Milestone:
03/05	Project and strategically analyze workload for peacetime and wartime and link to Operating Force inputs.
09/05	Include contractor requirements in Generating Force manpower requirements.
4th Qtr FY 2005	ODCS, G-1and USAAA jointly complete validation of corrective actions.

Status of Participating Functional Organizations: None.

Point of Contact: Office Address: SAFM-FOI, 109 Army Pentagon
                               Washington, DC 20310-0109
                               Telephone: (703) 693-2770, DSN: 221-2770

UNCORRECTED MATERIAL WEAKNESS

AICO-99-001

Title and Description of Material Weakness: Financial Reporting of General Equipment (formerly titled "Financial Reporting of Real Property and General Equipment"). The Army does not currently meet Federal Accounting Standards for the financial reporting of Real Property and General Equipment. In November 1995, the Federal Accounting Standards Board issued the Federal Accounting Standard Number 6, Accounting for Property, Plant and Equipment (PP&E). This Standard identifies four categories of PP&E, to include Real Property and General Equipment, and requires Federal agencies to present fairly the cost and depreciation of these assets in their financial statements.

To meet the requirements of this Standard, the Army implemented the Defense Property Accountability System (DPAS), a new Chief Financial Officer Act-compliant system for reporting Real Property and General Equipment. DPAS will replace or interface with existing non-compliant systems and bring the Army into compliance with Federal Accounting Standards.

Failure to meet this standard for financial reporting does not mean the Army lacks property accountability. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation and the determination of value for financial reporting. This inability to accurately report the financial value of Real Property and General Equipment, in turn, has been a major factor in the Army's failure to obtain an unqualified audit opinion on its annual financial statements.

Functional Category: OSD - Comptroller/Resource Management
Army - Financial Management

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

Targeted Correction Date In Last Year's Report: FY 2003

Current Target Date: 2nd Qtr FY 2004

Reason for change in Date(s): Assistant Secretary of the Army(Financial Management and Comptroller) expanded the scope of USAAA's review from existence and completeness to include valuation of assets. By including asset valuation as part of the review, the Army will be addressing a major factor hindering it from obtaining an unqualified audit opinion. USAAA review results will be used to enhance the Army's financial management of General Equipment.

Component/Appropriation/Account Number:

($000s)

Appropriation(s)	FY 03	FY 04	FY 05	FY 06	Cost-To-Complete	Total
None						

Validation Process: USAAA will validate the effectiveness of corrective actions.

Results Indicators: The Army will be substantially closer to receiving an unqualified audit opinion on its annual financial statements. In addition, the Army will benefit from DPAS implementation through: improved management oversight and accountability of PP&E; improved management access to PP&E information and operating results; and standardized property book accounting throughout the Army.

Source(s) Identifying Weakness: Management Review (Army Equipment Working Group and Army Integrated Process Team for Real Property). Audits of Army financial statements performed by USAAA (USAAA 97-149), Army's Principal Financial Statements for Fiscal Year 1996 -- Financial Reporting of Real Property and USAAA 99-192, Army's Principal Financial Statements for Fiscal Year 1998 -- Financial Reporting of Army General Equipment Financial Statements).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
4/99	Initiated fielding of DPAS to Table of Distributions and Allowances (TDA) and installation property books.
09/00	Activated Logistics Support Activity Weblog web site for FY 2000 equipment reporting.
07/01	Army G-4 mandated that General Equipment residing in Military Table of Equipment property books be transferred to the TDA or installation property books utilizing DPAS.
09/01	Completed implementation of DPAS for General Equipment reporting on September 30, 2001 except for two sites in Eighth US Army.
09/01	Incorporate corrected PP&E values (Army Working Capital Fund and General Fund) into FY 2001 financial statements.
09/01	Obtain year-end "snap-shot" of General Equipment (General Fund) for year-end valuation effort.

A. Completed Milestones: (Continued)

Date:	Milestone:
04/02	Completed 100 percent fielding of DPAS for General Equipment to all TDA and Installation property books containing General Equipment.
07/03	USAAA begins review of General Equipment.

B. Planned Milestones (FY 2004):

Date:	Milestone:
2nd Qtr FY 2004	USAAA completes its review of the FY 2003 General Equipment ending balance. Determines the accuracy of General Equipment records for existence, completeness and valuation.

C. Planned Milestones (Beyond Fiscal Year 2004): Not Applicable**.**

Status of Participating Functional Organizations:

Defense Finance and Accounting Service support assured.
Defense Logistics Agency, DPAS Program Office support assured.
Army, Office of the Deputy Chief of Staff for Logistics support assured.

Point of Contact: Office Address: SAFM-FOI, 109 Army Pentagon
                                              Washington, DC 20310-0109
                                              Telephone: (703) 693-2770; DSN: 223-2770

TAB A

**ARMY'S CONCEPT OF REASONABLE ASSURANCE AND
HOW THE EVALUATION WAS CONDUCTED**

(TAB A)

**ARMY'S CONCEPT OF REASONABLE ASSURANCE AND
HOW THE EVALUATION WAS CONDUCTED**

(TAB A)

Determination of Reasonable Assurance

The Army has an active, aggressive management control process that has been thoroughly institutionalized at all levels. Education of those in leadership positions and training of all commanders and managers is given high priority. Administration of the process stresses accountability for establishing effective management controls, for conducting formal evaluations of these controls, and for ensuring that management control deficiencies are reported and corrected. The U. S. Army Audit Agency (USAAA) routinely assesses the effectiveness of management controls in the course of every audit, explicitly addressing management control deficiencies in their reports as a means of ensuring managerial accountability. In addition, USAAA annually conducts a review of the Army management control process, to include preparation and support of the Secretary's annual statement, and publishes an independent assessment that is presented to the Secretary along with his annual statement. That independent assessment is included at Tab C of this annual statement.

The Army has periodically reassessed the effectiveness of its management control process and initiated improvements when needed. In addition, the Army's senior leadership has voiced strong support for an aggressive management control orientation, placing heavy emphasis on the importance of management controls and requiring the active involvement of major commanders in the process. The positive response of commanders and managers throughout the Army demonstrates their strong commitment to strengthening management controls as a means of promoting mission accomplishment and sound stewardship of public resources. Finally, to ensure that the Army's annual statement reflects a fair assessment of its management controls and discloses fully its management control deficiencies, the Army's Senior Level Steering Group (SLSG), representing all functional areas, conducts a final corporate review of this statement prior to its submission to the Secretary for approval and signature.

Guidelines and Objectives

The Army's management controls in effect during the fiscal year (FY) ending September 30, 2003, were evaluated in accordance with the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. These guidelines were issued by the Director of the Office of Management and Budget (OMB), in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982 (the Integrity Act). Included here is an evaluation of whether the Army's system of internal accounting and Administrative controls are in compliance with standards prescribed by the Comptroller General. The objectives of the Army's system of management controls are to provide management with reasonable assurance that:

-- Obligations and costs comply with applicable law;

-- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation;

-- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained; and

-- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

The following sections describe the Army's concept of reasonable assurance; how the Integrity Act has been implemented in the Army; how the Army's management control process functions to ensure that managers are trained and held accountable; and how management control deficiencies are identified, tracked through to correction, and reported.

The Army's Concept of Reasonable Assurance

The Army's concept of reasonable assurance recognizes that the cost of management controls should not exceed the expected benefits, and that these benefits consist of reductions in the risks of failing to achieve stated objectives. The expected benefits and related costs of management control measures should be addressed using managerial judgment. Furthermore, management control problems may occur and not be detected because of inherent limitations in any system of management controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, the projection of any evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate. Therefore, our statement of reasonable assurance is provided within these limitations.

How the Integrity Act Has Been Implemented by the Army

Even before the Integrity Act, the Army's inherent complexity and discipline required a broad range of management control mechanisms to ensure accomplishment of basic missions. Army regulations and other formal directives define the standard actions that must be accomplished by Army commanders and managers. Standard organization structures for Army garrisons and tactical units serve to separate essential duties, pinpoint policy and oversight responsibility, and create checks and balances that reduce the risk of errors and omissions. Other common management control mechanisms include weekly staff meetings, quarterly review and analysis sessions and various in-process reviews and status briefings tailored for decision-making. Additional prevention and detection measures are provided by internal Army organizations performing extensive audits, inspections, investigations, and quality reviews of every Army activity. Confidence about the readiness posture of tactical unit personnel, equipment and training is derived from Unit Status Reports submitted by unit commanders and forwarded through channels to Headquarters, Department of the Army (HQDA). In a similar fashion, confidence about garrison functions is derived from

the Installation Status Report. These examples clearly illustrate that the Army's commitment to effective management controls has been, and continues to be, an inseparable element of day-to-day operations.

The Army's initial effort to implement the Integrity Act was a largely decentralized approach. Operating managers throughout the Army were provided with broad OMB Guidelines and Comptroller General Standards and were made responsible for assessing risk, identifying the controls to evaluate, and conducting these evaluations. This approach resulted in excessive workload and considerable confusion. In FY 1984, the Army's program was redirected to a highly centralized approach. HQDA functional proponents identified the management controls to be evaluated, and did so in the form of a checklist that also served as the required tool for conducting these evaluations. The HQDA functional proponents also conducted Army-wide risk assessments of their functional areas and, based on these assessments, determined the frequency for conducting these required evaluations. Based on their input, the Army's management control staff published these checklists in a series of Department of the Army Circulars and published a single Army-wide Management Control Plan listing the areas to be evaluated, the schedule for doing so, and the officials responsible for ensuring that these evaluations were conducted.

This more centralized approach continued unchanged for the most part through FY 1994, and was successful in standardizing the evaluation process throughout the Army. However, when the General Accounting Office (GAO) conducted its major review of Army financial management operations and controls in FY 1991-1992, it found numerous management control failures. While the audit report indicated that the Army had a good management control policy and program framework, they were often not being used by managers in the field. As a result of this and other audit reports, the Army initiated a self-assessment of its management control process. This included sessions with Army managers and an independent assessment by a private accounting firm. The result of this self-assessment confirmed the GAO's findings and pointed out several specific problems with the management control process: it was too heavily centralized, with HQDA making too many of the key decisions (e.g., what to evaluate, how to evaluate and when); it provided little flexibility to commanders and managers, and resulted in their having little sense of ownership of the process; and the checklists that identified the management controls to be evaluated were excessive in number and in length, were confusing in format and style, and were filled with questions about minor procedural requirements.

Based on this self-assessment, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C)) restructured the management control process effective October 1, 1994. This restructured process reduces workload and promotes ownership and accountability for effective management controls by limiting required evaluations to key management controls, by providing maximum flexibility to commanders and managers on how and when they conduct these evaluations, and by raising the level of responsibility for certifying these evaluations. HQDA functional proponents still determine which management controls must be evaluated, but they are now much more selective, thus allowing managers to focus their limited resources on higher priority areas. Key management controls that

must be evaluated are being identified in Army regulations, along with simple, streamlined checklists or other suggested evaluation methods. Commanders and managers develop their own management control plans to cover both the required evaluations and those additional areas that they choose to evaluate. They also determine which senior officials, generally Colonels or GS-15s and above, will be designated as the Assessable Unit Managers responsible for certifying these evaluations.

The Army's Management Control Process

The Army's approach to management control is based on the fundamental philosophy that all commanders and managers have an inherent management control responsibility. HQDA functional proponents are responsible for establishing sound management controls in their policy directives and for exercising effective oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining effective management controls to ensure that operations are effective and resources are protected and used appropriately. This philosophy is soundly rooted in the Integrity Act and OMB, DOD and Army policy. The Army's management control process supports commanders and managers in meeting these inherent responsibilities by providing two additional management control mechanisms: a process for periodically conducting detailed evaluations of key management controls and a process for developing and supporting an objective annual statement of assurance for the Secretary of the Army that fully discloses known material weaknesses.

In September 2001, a Management Control Steering Group was chartered by the OASA (FM&C) to assist the Army's management control staff. Composed of senior Management Control Administrators (MCAs) from throughout the Army, this Management Control Steering Group provides advice, identifies areas that need improvement and initiates or assists in implementing those improvements. After being in operation for only two years, this Steering Group has already completed a series of successful efforts, which are highlighted in the following sections.

The Army's management control policy and process are implemented and emphasized through four key components. First and foremost is leadership emphasis. Second is education and training to ensure that commanders and managers understand their management control responsibilities. Third is an evaluation process that clearly defines fundamental requirements and establishes accountability, while minimizing the workload burdens that ultimately detract from enthusiastic acceptance of Integrity Act objectives. Fourth, and the ultimate goal of the Integrity Act, is an effective process to detect, report and correct recurring management control deficiencies.

Leadership Emphasis

The Army's senior leadership has consistently demonstrated strong support for the management control process in two ways:

-- The Army's senior leadership has issued a series of memoranda emphasizing

the importance of effective management controls and sound stewardship of public resources. The most recent of these – developed by the new Management Control Steering Group – was signed jointly by the Secretary of the Army and the Chief of Staff, Army in February 2002 and was addressed to all major Army commanders.

-- The Amy uses its SLSG as a "senior management council" (a forum recommended by OMB Circular A-123) to review, discuss and resolve management control issues. This executive body composed of General Officers and Senior Executive Service members meets twice each year: in the spring to review progress in correcting previously-reported material weaknesses and in the fall to review the proposed Army Statement of Assurance before it is send to the Secretary for approval and signature. In both sessions, the SLSG considers additional management control deficiencies that might merit reporting as Army material weaknesses.

-- Since FY 1996, at the direction of the Under Secretary of the Army, implementation of the management control process has been assessed on an annual basis. This assessment is conducted by a joint panel representing the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)), the Inspector General and the Auditor General, and results in Letters of Commendation from the ASA (FM&C) to deserving organizations.

Education and Training

Educating Army commanders and managers at all levels on the principles and practices of sound management control is central to achieving the objectives of the Integrity Act. It is a continuous process and potentially very expensive. General management control training courses developed by the US Department of Agriculture's Graduate School are offered to all Government managers, but obtaining training solely from external sources would be too expensive and would not address the specifics of the Army's management control process. Instead, the Army's management control staff implemented an Army-wide education and training effort to achieve a basic understanding of management controls and the components of the Army's management control process. This training is provided to the HQDA staff, commanders, managers and MCAs at all levels. The following is a summary of these education and training efforts:

Direct Training Assistance: The Army's management control staff has focused its efforts primarily on embedding management control instruction in the Army's education and training structure, rather than directly providing this instruction itself. This approach has yielded substantial benefits in terms of providing more comprehensive and cost-effective management control training, reaching a wider student population and increasing management's understanding of, and commitment to, effective management controls. Nevertheless, some direct training assistance is provided:

-- During FY 2003, the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller), the Deputy Assistant Secretary of the Army (Financial Operations) and the management control staff made 31 presentations on the management control process to 1,996 commanders and managers. In addition, the

management control staff took the following actions to directly provide training and to enhance the ability of others to provide it:

        -- Management Control Training Conference. To enhance the ability of MCAs to run their own programs and conduct their own training, the management control staff conducts an annual Management Control Training Conference. In June 2003, this conference provided 154 MCAs from major commands (MACOM) and HQDA staff agencies with information on management control policies and procedures and a forum to discuss current issues and ideas for better program implementation. After the FY 2002 conference, the Management Control Steering Group, working with the Army Reserve Readiness Training Center, initiated an annual customer survey to ensure this training meets the needs of the management control community.

        -- Management Control Web site. To more effectively communicate management control information to the total Army, the management control staff upgraded its Army management control homepage to ensure that accurate and easily accessible information is rapidly provided in a user-friendly manner to commanders and managers throughout the Army.

Education of Army Leadership: The management control staff strives to ensure that the management control message is included in the curricula of the Army's primary leadership schools, in an effort to make it a part of the professional development of every Army commander and manager. The following leadership schools include management control instruction:

        -- Command and General Staff College. The Command and General Staff Officers Course is a ten-month program that prepares 1200 officers for duty as field grade commanders and principal staff officers at division and higher echelons.

        -- Garrison Commanders' Course. Designed for Colonels assigned to command Army garrisons and for their civilian Executives Assistants, this course is presented four times a year.

        -- General Officer Installation Command Course. Designed for Major Generals assigned to command Army installations, this course is taught four times a year and addresses the topic of management controls.

        -- Army Comptrollership Program. This is a 14-month graduate level program for Army military and civilian resource managers at Syracuse University. In addition, management control training has been incorporated into the Professional Resource Management Course, a four-week professional development course for mid-level Army managers that is also taught at the University.

        -- Professional Military Comptroller School (PMCS). This is a six-week course for mid-career and senior resource managers in DOD. This course is taught five times a year to over 200 students and develops their capacities to adapt the comptroller's role to the economic, political and social environment of their military organizations.

Training of Army Managers: In addition to direct training and efforts to improve leadership education, management control instruction has been incorporated into courses designed to train Army managers. These include:

-- Army Soldier Schools. Instruction in stewardship and management control has been incorporated in Army soldier schools to include the Officer and Warrant Officer Basic/Advanced courses, the Advanced Non-Commissioned Officer and First Sergeant courses, and the Combined Arms and Services Staff School.

-- Army Management Staff College. The Sustaining Base Leadership and Management Program is a 12-week resident course designed to provide advanced professional education to selected military and civilian managers across a wide range of functional areas. It is offered three times a year and trains approximately 450 managers and leaders who will advance to fill key positions.

-- Government Audit Training Institute (GATI). The management control staff has worked with GATI (a part of the US Department of Agriculture's Graduate School) to develop two courses that are tailored specifically to the Army's management control process. First, there is a basic one-day on-site course for managers; during FY 2003, this course was offered seven times with 167 Army students. In addition, there is a two-day course specifically designed to train MCAs; during FY 2003, this course was offered 11 times with 248 Army students.

-- Auditor Training. The USAAA has incorporated instruction on the Army's management control process into its training courses for both USAAA and Army Internal Review auditors, with separate courses provided for basic, intermediate and senior auditor levels.

-- Web-based Training. The Management Control Steering Group, working with the Army Reserve Readiness Training Center, developed a series of web-based training modules that provide readily accessible instruction on various facets of the management control process. Customer response has been very favorable and efforts to expand and improve this method of training are ongoing.

Administration of the Management Control Process

A vital element in the Army's management control process is the Management Control Plan. This management tool defines the functional areas where key management controls must be evaluated, the five-year schedule for conducting these evaluations, the officials responsible for ensuring that these evaluations are conducted and for certifying the results. By pinpointing the responsibility for these evaluations, the Management Control Plan provides support for the assurances reflected in the Secretary of the Army's annual statement and the supporting annual statements from the Army's major components. Under the restructured management control process, the Army's major commands and their assessable unit managers have established their own Management Control Plans. While these plans will contain the same basic information and provide the same measure of accountability, commands and assessable unit managers can now achieve economies by developing their own

schedules for conducting management control evaluations.

In order to streamline the management control process and reduce the workload associated with it, the required management control evaluations have become more selective, focusing on key management controls. HQDA functional proponents have revised their regulations to identify the key management controls that must be evaluated and to provide guidance on how evaluations may be conducted. The Army management control staff maintains an inventory of all required evaluations and makes this available Army-wide through its management control web site. Managers select those evaluations that are applicable to their organization and choose how the evaluations will be done, using either a new streamlined checklist or some existing management review process. This approach ensures that key management controls are updated when policies are revised, that managers have the flexibility to conduct their evaluations in the most efficient manner, and that they can concentrate their scarce resources on highest priority areas.

Under the management control process, MACOMs and HQDA staff agencies segment themselves along organizational lines into assessable units, which must be headed by no less than a Colonel or GS-15 (at garrison/activity level, where the grade structure is lower, the Assessable Unit Manager may be the senior functional manager, regardless of grade). While most of the detailed work associated with a management control evaluation continues to be done by personnel at lower levels, the certification has been raised to a substantially higher level ensuring that mid-to-upper level managers are involved in, and accountable for, the evaluation of their management controls.

As indicated, USAAA plays an active role in this process. USAAA looks at the effectiveness of management controls during audits and annually conducts a review of the Army's management control process, resulting in an independent assessment from the Auditor General to the Secretary of the Army. In addition, based on its audit work, USAAA also identifies functions that it believes merit the identification of key management controls in Army Regulations. Finally, USAAA Program Directors identify potential Army material weaknesses for consideration by HQDA functional proponents and the Army's SLSG.

Army Management Control Weaknesses

The Army employs comprehensive means for detecting and correcting management control weaknesses, and for identifying and reporting those weaknesses that are considered material. In addition to external coverage of Army operations by the GAO and the DOD Inspector General, the Army scrutinizes itself through continuing and repetitive reviews by the USAAA, the Army Inspector General organization, installation-level Internal Review and Inspector General operations, a broad array of specialized functional review groups, and other standard evaluations. Army systems and procedures have been in place for many years to record, monitor and achieve resolution of all detected deficiencies, most of which involve management control weaknesses.

In determining which management control weaknesses should be reported as

material by the Army, HQDA functional proponents consider all sources of information to include: their overall awareness of the situation in their areas of responsibility; the views of major field commanders as expressed in their supporting annual statements; DOD systemic material weaknesses identified by the OSD staff; all significant audit and inspection reports; and suggestions by the DOD Inspector General, Army Auditor General and Army Inspector General on reports or findings which they believe merit serious consideration for reporting as Army material weaknesses. In addition, the Army uses its SLSG to conduct both a mid-year review of selected and potential Army material weaknesses and a final corporate review of the Army statement prior to submitting the statement to the Secretary for approval and signature. This Steering Group functions as the Army's Senior Management Council, an approach recommended by OMB that the Army strongly supports and has integrated into its management control process.

Ultimately, however, the Army's final determination on material weaknesses reflects its management judgment, as intended by the Integrity Act. The Army is fully aware of and acknowledges its management control problems, both in the DOD Inspector General's semiannual report to Congress and in various audit and inspection reports (subject to the formal resolution of disagreement process). The omission of any such problem in the Secretary's annual statement simply reflects a difference of opinion on the relative materiality of the problem.

In the 20 reporting years since inception of the Army's management control process, Army commanders and managers have reported 1343 material weaknesses to the Secretary. These were the weaknesses remaining after a filtering and value-added reporting process from line managers up through each higher echelon of management. After aggregating similar problems and weeding out lesser issues, the Army reported 230 material weaknesses to DOD. Only 13 of these remain open. Summary details follow:

Open material weaknesses at September 30, 2002	10
Plus: new material weaknesses identified in FY 2003	3
Less: material weaknesses corrected in FY 2003	0
Open material weaknesses at September 30, 2003	13

DOD Systemic Material Weaknesses

The Office of the Secretary of Defense (OSD) is reporting eight DOD systemic management control material weaknesses in FY 2003. These DOD systemic material weaknesses and the Army material weaknesses that are related are:

Financial Management Systems and Processes: Two Army material weaknesses are related to this DOD systemic weakness.

-- Financial Reporting of General Equipment (page B2-14)

-- Financial Reporting of Real Property (page B2-4)

Information Assurance: One Army material weakness is related to this DOD systemic weakness:

-- Information Systems Security (page B2-11)

Environmental Liability: One Army material weakness is related to this DOD systemic weakness:

-- Management of Unexploded Ordnance (page B2-10)

Management of Munitions and Explosives: One Army material weakness is related to this DOD systemic weakness.

-- Management of Unexploded Ordnance (page B2-10)

Personnel Security Investigations Program: No Army material weaknesses are related to this DOD systemic weakness. While the Army is concerned about the impact of this DOD systemic weakness on its day-to-day operations, the responsibility for corrective action lies outside the Army.

Real Property Infrastructure: No Army material weaknesses are related to this DOD systemic weakness.

DOD Card Program Management: One Army material weakness is related to this DOD systemic weakness:

-- Army Purchase Card Program (page B2-5)

In addition, the Army is working closely with OSD to address problems of card misuse and delinquency on the Travel Card Program and to aggressively implement solutions. As this program operates under a single DOD task order and policy directive, and these corrective actions are mostly DOD-wide in nature, the Army believes the single DOD systemic weakness is most appropriate.

Contracting for Services: One Army material weakness is related to this DOD systemic weakness.

-- Contract Administration of Service Contracts (page B2-1)

TAB B

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

(TAB B)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

Uncorrected Weaknesses Identified During the Period:

Title	(Quarter and Fiscal Year) Targeted Correction Date	Page
Contract Administration:		
Contract Administration of Service Contracts	2nd Qtr FY 2005	B2-1
Personnel/Organizational Management:		
Reserve Component Mobilization Accountability	4th Qtr FY 2004	B2-2
Comptroller/Resource Management:		
Financial Reporting of Real Property	4th Qtr FY 2004	B2-3

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR and FY Date Per Last Annual Statement	Per This Annual Statement	Page
Contract Administration:				
Army Purchase Card Program	FY 2002	FY 2003	4th Qtr FY 2004	B2-4
Standard Procurement System Interface to Computerized Accounts Payable System	FY 2001	FY 2004	4th Qtr FY 2004	B2-5

Uncorrected Weaknesses Identified During Prior Periods: (Continued)

Title	Year First Reported	Correction QTR and FY Date		Page
		Per Last Annual Statement	Per This Annual Statement	
Force Readiness:				
Automated Mobilization System	FY 1988	FY 2003	4th Qtr FY 2004	B2-6
Supply Operations:				
In-Transit Visibility (ITV) Policies/Standards	FY 2002	TBD	TBD	B2-7
Financial Reporting of Equipment In-Transit	FY 1996	FY 2005	4th Qtr FY 2005	B2-8
Property Management:				
Management of Unexploded Ordnance	FY 1998	TBD	1st Qtr FY 2007	B2-9
Communications Security:				
Information System Security	FY 1996	FY 2003	2nd Qtr FY 2005	B2-10
Personnel/Organizational Management:				
Line-of-Duty (LOD) and Incapacitation (Incap) Pay	FY 2002	FY 2004	4th Qtr FY 2005	B2-11
Manpower Requirements Determination System	FY 1997	FY 2005	4th Qtr FY 2005	B2-12
Comptroller/Resource Management:				
Financial Reporting of General Equipment	FY 1999	FY 2003	2ND Qtr FY 2004	B2-13

<u>Corrected Weaknesses Identified During All Periods</u>:

<u>Title</u>	**Year First <u>Reported</u>**	**<u>Page</u>**

None reported this period.

**UNCORRECTED MATERIAL WEAKNESSES
STATUS OF CORRECTIVE ACTIONS**

(TAB B-2)

CORRECTED MATERIAL WEAKNESSES THIS PERIOD

(TAB B-3)

CORRECTED MATERIAL WEAKNESSES THIS PERIOD

(TAB B-3)

None reported for this period.

MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

(TAB B-4)

MANAGEMENT CONTROL PROGRAM AND
RELATED ACCOMPLISHMENTS

(TAB B-4)

**MANAGEMENT CONTROL PROGRAM AND
RELATED ACCOMPLISHMENTS**

(TAB B-4)

Army Management Control Training

Description of the Issue:

- The Army needed management control training materials that provided a more detailed ("how-to") approach to training its Management Control Administrators (MCAs) as well as Army commanders / managers.

Accomplishments:

The Army's Management Control Steering Group and the US Army Reserve Readiness Training Center (ARRTC) initiated four efforts designed to (1) provide training to both MCAs and commanders / managers and (2) to assist MCAs in the administration of their programs:
• Modular training program. This program consists of seven easy-to-use and easy-to-understand training modules on: The Management Control Process; Becoming a Management Control Administrator; GAO Standards; Developing a Management Control Plan; Conducting and Documenting Management Control Evaluations; Writing a Material Weakness; and Risk Management. This modular program was distributed Army-wide in CD form and is available through the ARRTC website as a PowerPoint presentation with narrative.
• Tool Box for Army MCAs. Distributed in CD form, this Tool Box is a collection of real-life documents developed by successful Army MCAs to accomplish many of the tasks required under the Army's management control program. The Tool Box allows MCAs to download examples of documents and modify them to fit their own needs. The Tool Box has "drawers" for: HQDA; Training Videos; Functional Proponents; Individual Command Resources; Management Control Plans; Control Failure Examples; and Other Available Training.
• Army MCA Course. Worked with the Government Audit Training Institute (under the US Department of Agriculture Graduate School) to completely restructure the plan of instruction for this two-day course to provide a more detailed ("how to") approach. Tailored specifically to train Army MCAs, this course is typically conducted about ten times a year for 200-300 students. The new plan of instruction will be employed for courses offered in FY 2004.
• Army Management Control Conference. Revised the agenda for the Army's FY 2003 conference to provide additional instruction on the details of program administration. The revised agenda included presentations by: the OSD Program Manager on changes in the DOD program; the Army management control staff on How to Write a Material Weakness and How to Write an Effective Tab A; and US Army Audit Agency on Conducting and Documenting Management Control Evaluations. The FY 2003 conference was the Army's most successful ever, with

over 150 MCAs and managers attending and participation by OSD, Navy and Air Force personnel.

**Third US Army Strengthening of Management Controls
In a Forward-Deployed Theater**

Description of the Issue:

- Third US Army, the Army's component of Central Command, needed to ensure that strong, effective management controls were in place for its forces deployed in the challenging environment of Kuwait, Saudi Arabia, and Qatar.

Accomplishments:

Established a Command Security Team to formulate, assess, and improve operation security / physical security within the operational headquarters.
Directed each staff section to evaluate two highly vulnerable areas – information security and property accountability – in forward deployed organizations.
Developed numerous financial management policies and procedures to facilitate efficient funding of command requirements, while maintaining 100 percent accountability of funds, to include: establishing management controls to ensure funds were used appropriately and to prevent fraud, waste, and abuse; establishing a thorough budget reconciliation and file maintenance process to improve efficiency of budget execution and accountability of funds; and developing detailed tactics, techniques and procedures for resource management in forward area to use in reconciling their financial accounts.
Established a Combined Acquisition Review Board to review all requirements over $200,000 and certain special items (e.g., automation equipment, cell phones and non-tactical vehicles) to determine that there is an operational need before recommending approval, disapproval or quantity adjustments.
Established a monthly Award Fee Review Board to evaluate performance standards of the $70 million annual Combat Service Support Contract, which provides base operations support to US Army Forces, US Central Command-Kuwait and maintenance support for the Army Pre-positioned Stock fleet in Kuwait.
Conducted training on Foreign Disclosure duties and responsibilities to ensure that the sharing of certain classified information with coalition partners did not jeopardize US security.
Provided training on operational security measures with embedded media to ensure unit missions were not compromised, identified ground rules and required media members sign an agreement to abide by these rules.
Employed an internet minimization phase plan that blocks non-official websites and enables more efficient use of the theater's limited bandwidth. Also employed a minimization phase plan for non-official phone calls that utilize the Defense Switch Network. These plans effectively improved capability to conduct official business when operational requirements dramatically increased demand.

Army National Guard Travel Charge Card Program

Description of the Issue:

- The Army National Guard needed to improve its performance on this program by reducing the rate of delinquency by individual cardholders.

Accomplishments:

Placed strong emphasis on obtaining senior leadership commitment to aid in the elimination of misuse and abuse of the card.
Identified best business practices at high-performing sites / agencies and disseminated these best practices to all elements within the Army National Guard through policy memoranda, newsletters and travel card bulletins.
Created a training course for Agency Program Coordinators (APCs) in the Army National Guard. This course was conducted on multiple occasions during FY 2003.
Implemented regulatory guidance in the form of an Army National Guard regulation and a Standard Operating Procedure, to communicate program requirements and provided a standardized operational plan for success.
Implemented multiple enhancements within the Army National Guard's Automated Funds Control Order System to reduce workload on APCs and provide more reliable account management and early identification of 'at risk' accounts.
These new policies, procedures and training efforts contributed to the Army Nation Guard reducing its overall delinquency rate from 23.98% in January 2003 to 10.93% in September 2003.

Army National Guard Transformation to
The Standard Financial System (STANFINS)

Description of the Issue:

- The Army National Guard (ARNG) needed to convert from its command-unique accounting system (State Accounting & Budget Execution System, or SABERS) to STANFINS, the Army standard accounting system.

Accomplishments:

Converted current year data to STANFINS at five Army National Guard States only four months after the decision was made to convert to STANFINS.
Converted prior year data to STANFINS at these five sites (the first such success story in the Army), eliminating the need for Army National Guard sites to operate two accounting systems during the transition to STANFINS.
Updated the Army National Guard commitment accounting system to interface with

STANFINS, allowing a seamless conversion of commitments to obligations. As a result, Army National Guard fund managers continue to use the commitment system they are familiar, eliminating the need to train thousands of fund managers. New functionality was added to this commitment accounting system to overcome some of the more labor-intensive accounting tasks in STANFINS, eliminating the need for additional staffing.
Improved management controls by preventing variances in the Command Expenditure Report and the ability to override accounting regulations.
The Army National Guard has experienced substantial success in these five pilot sites on converting from SABERS to STANFINS. The remaining 49 Army National Guard States / Territories are receiving hands-on training prior to their conversion to STANFINS on 1 October 2003.
As a result of these efforts, the Army National Guard will eliminate its unique accounting system, establish general ledger accountability, align its business practices with the rest of the Army and provide visibility of its obligation and execution data to HQ Department of the Army, the National Guard Bureau and the Defense Finance and Accounting Service.

Acquisition and Cross Servicing Agreements in US Army Europe

Description of the Issue:

US Army Europe (USAREUR) needed an effective process to track the processing of multinational logistics transactions.

Accomplishments:

Developed the Acquisition and Cross Servicing Agreements (ACSA) Central system to track all USAREUR multinational logistics transactions from inception to completion. USAREUR reached a 98% collection rate from coalition nations for multinational transactions in the Balkans. Subsequently:
USAREUR submitted the ACSA Central concept as a Business Initiatives Council proposal to HQ Department of the Army, which approved the proposal and submitted it to the DOD Business Initiatives Council.
Based on the USAREUR concept, the Office of the Secretary of Defense and the Joint Staff are developing a Request for Proposal for a DOD-wide system – ACSA Global – that will have the capability to track all multinational logistics transactions "cradle-to-grave" worldwide. OSD and the Joint Staff will work with the Defense Finance and Accounting Service to develop an interface with service financial systems to produce a tracking system with real-time financial data.
USAREUR efforts were recognized when the team that developed and implemented ACSA Central received the Department of the Army's Resource Management Team Award for FY 2003.

Efforts by Headquarters, Department of the Army to
Improve Interfaces Between Financial and Logistics Systems

Description of the Issue:

The Army needed more timely and reliable financial information for consumer-funded supply requisitions and a uniform method of recording obligations for supply transactions. In addition, the Army needed to improve supply distribution from DLA sources of supply.

Accomplishments:

Initiated a Business Initiative Council project to reengineer the interfaces between the Army retail logistics system and the Defense Finance and Accounting Service accounting systems and to provide an automated fund control capability. The Secretary of the Army approved the project and FY 2003 funds were obtained to begin the effort (action has been initiated to obtain FY 2004 funds). Complete Army fielding of the automated fund control capability is planned for FY 2005.
Worked to ensure efficient logistics and financial management interaction with Defense Logistics Agency (DLA) efforts to establish Army forward-distribution points for DLA-managed Class IX repair parts and Class II clothing items.

Consolidation of Inspection In-briefs at Headquarters,
US Army Intelligence and Security Command

Description of the Issue:

- The Inspector General at the US Army Intelligence and Security Command (INSCOM) needed a more efficient process for conducting the required in-briefs for inspections involving multiple organizational elements.

- Previously, staff inspections had required separate in-briefs at each organization / element, with each in-brief requiring one presentation by the inspecting staff element on the focus / objective of the inspection and another presentation by the element being inspected on their organization, missions and functions (i.e., the command brief), along with discussion of any issues.

Accomplishments:

Streamlined the staff inspection program and began conducting consolidated in-briefs via video-teleconference, with representatives from all elements of the inspecting staff and all elements of the organization being inspected.
This eliminated multiple presentations of the inspected organization's command brief the inspecting staff's in-brief; allowed for "eye-to-eye" contact between the commander

of the organization and the inspector; and facilitated prompt responses to any questions that were raised.

Management Control Training in the
US Army Strategic Missile Defense Command

<u>**Description of the Issue**</u>:

The US Army Strategic Missile Defense Command (USASMDC) needed to expand the scope of management control training provided to its Assessable Unit Managers, organization points of contact, supervisors and other interested personnel.

<u>**Accomplishments**</u>:

Distributed information about online management control training to major subordinate elements to increase their awareness of this opportunity and emphasized the importance of their participation.
Improved the command's tracking system to more effectively monitor and capture data on personnel receiving such training.
Distributed a USASMDC Management Control Handbook to all personnel involved in the program.
As a result, the number of USASMDC personnel receiving management control training in FY 2003 increased by 63 percent over FY 2002.

Eighth US Army Travel Charge Card Program

<u>**Description of the Issue**</u>:

- The Eighth US Army (EUSA) needed to improve its performance on this program by reducing the rate of delinquency by individual cardholders.

<u>**Accomplishments**</u>:

Initiated a command media campaign to educate cardholders and other command personnel on proper use of the travel card, to include:
▪ Publishing an article in the local command newspaper.
Broadcasting information on the local command TV channel.
▪ Broadcasting an interview with the Deputy Resource Manager on the Armed Forces Network TV channel.
▪ Broadcast a discussion about the travel card on the local command radio station.
Developed a revised training program for travel card coordinators for implementation in October 2003 and initiated development of an on-line training program for implementation in January 2004.
Developed an information brochure to educate EUSA personnel on the "do's" and

"don'ts" of travel card use for distribution in October 2003.
Developed new Standard Operating Procedures for the travel card program.
Briefed the EUSA Chief of Staff each month on delinquency in subordinate elements.
Issued a memorandum from the EUSA Resource Manager to subordinate elements on military personnel 30 days past due on their travel card accounts.
These new policies, procedures and training efforts contributed to EUSA reducing its overall delinquency rate from 23.59% in January 2003 to 9.82% in September 2003.

Establishment of a Management Control Process for
The Army's New Installation Management Agency

Description of the Issue:

▪ The Installation Management Agency (IMA) needed to establish a management control process during a fast-paced start-up year.

Accomplishments:

Placed strong leadership emphasis on identifying and establishing controls in all functional areas and, in particular, those areas known to have DoD systemic weaknesses, such as in the misuse and abuse of purchase cards.
Assigned and trained Management Control Administrators (MCAs) at all levels of command.
Designated and trained assessable units and Assessable Unit Managers (Aims) at all levels of command.
Ensured Aims had their management control responsibilities reflected in performance objectives.
Established a process for developing the IMA Statement of Assurance, with feeder statements flowing from Army garrisons through one of seven IMA Regions and the HQ IMA to the Army's Assistant Chief of Staff for Installation Management. The process worked well despite the turbulence of establishing the new IMA structure, the start-up of IMA operations and substantial personnel turnover.
Established a process for reporting, evaluating and tracking material weaknesses in garrison functions, with a functional review committee making recommendations to the IMA senior leadership.
Established a robust review and analysis process to identify and evaluate key management controls in critical IMA functions to ensure they are in place and effective. This process, the IMA Enterprise Performance Review, will systematically review the performance of IMA subordinate elements and identify areas for command emphasis.

Office of the Chief, Army Reserve (OCAR) Process
For Integration of Management Control Issues

Description of the Issue:

- The OCAR needed a mechanism to ensure that management control issues were properly integrated between the Army's Active and Reserve Components, in light of the Secretary of the Army's HQDA Realignment, which transferred certain OCAR functions (e.g., logistics) to those HQDA staff offices with primary oversight of those functions.

Accomplishment:

Established a requirement and a process for HQDA staff offices to share with OCAR any material weaknesses or other management control issues or concerns that impact on the Reserve Component.
Established a process within OCAR and the US Army Reserve Command to assess, coordinate, consolidate and staff these weaknesses / issues / concerns to ensure appropriate Active / Reserve integration and staff action and to ensure appropriate coverage in the OCAR Statement of Assurance.

US Army Pacific (USARPAC) Risk Assessment Matrix

Description of the Issue:

- USARPAC needed an improved process to assess the risks associated with the various programs and functions it was responsible for managing.

Accomplishment:

USARPAC Internal Review developed a Risk Assessment Matrix to identify potential risks associated to each program and function.
Senior leaders within HQ USARPAC used the matrix to assess the risks associated with their programs and functions.
USARPAC Internal Review reviewed the completed assessments to determine: whether the matrix validated the assessment; if management controls were in place; if any corrective actions were needed; and if any audits should be programmed.
In FY 2004, USARPAC will broaden the application of this Risk Assessment Matrix within the command and determine what actions can be taken to improve management of programs and their associated risk through risk management, management control training and the scheduling of audits, inspections and assistance visits.

TAB C

SAAG-FFG (36-5e)   8 October 2003

MEMORANDUM FOR Assistant Secretary of the Army (Financial Management
                              and Comptroller)

SUBJECT: Independent Assessment of the Army's Compliance with the
Federal Managers' Financial Integrity Act

1. Enclosed is The Auditor General's assessment on the Army's actions to
ensure compliance with the Federal Managers' Financial Integrity Act of 1982.
In addition to this assessment we will be issuing reports with detailed results
to each activity included in the review and an overall report summarizing the
site results to you.

2. If you have any questions concerning this assessment, please contact
Anita Bales, 703-681-9766 or anita.bales@aaa.army.mil or Anitra Akanbi,
703-428-6768 or anitra.akanbi@aaa.army.mil.

FOR THE AUDITOR GENERAL:

Encl   JOYCE E. MORROW
                                        Deputy Auditor General
                                        Forces and Financial Management

8 October 2003

Acting Secretary of the Army

The U.S. Army Audit Agency performed a review to furnish you an independent assessment of the Army's actions to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982; Office of Management and Budget Circular A-123, Management Accountability and Control; DOD Directive 5010.38, Management Control Program; and DOD Instruction 5010.40, Management Control Program Procedures.

Based on our review, I have concluded that the Army, as an entity, has continued its efforts to ensure that a system of management controls exists in accordance with the Integrity Act, Circular A-123, DOD Directive 5010.38, and DOD Instruction 5010.40. As shown in the enclosure to your annual assurance statement, during FY 03 the Army remained committed to ensuring that the management control process was effective. Some of these actions follow:

- The Army continued to emphasize leadership, training, and process execution in day-to-day operations.

- The Senior Level Steering Group met twice during the fiscal year to review Army-level material weaknesses.

- The management control process benefited from the overall program direction of the Management Services Directorate. The directorate:

  > Furnished functional guidance and executed an education and training program during FY 03.

  > Continued to award commanders, managers, and administrators for executing more efficient programs within their organizations.

  > Maintained an e-mail network of management control administrators for Headquarters, DA Staff Agencies and major commands.

➢ Operated a website with information on the management control process.

We found that these actions have had a positive impact on the process.

Again this year, our effort paralleled the Army's emphasis on leadership, training, and execution of the management control process. We also concentrated on support for your statement and the identification and correction of material weaknesses and the publishing of key management controls in Army regulations. A summary of the results of our review follows:

- There has been continued leadership emphasis on the process; senior-level managers at Headquarters, DA and Army major commands have directly participated. Their feeder statements were generally a fair representation of the effectiveness of the process.

- Senior leadership at each level generally evaluated weaknesses identified by external inspection and audit activities for materiality and reported those weaknesses considered to be material.

- Management levels identifying material weaknesses corrected them or scheduled them for correction.

- Headquarters, DA activities and major commands had reasonably effective systems to monitor actions to correct material weaknesses.

- Education and training efforts resulted in increased awareness of feeder statements requirements.

- Activity managers prepared feeder statements that were compiled into an annual assurance statement that the commander or equivalent signed.

The Army continues to provide senior level emphasis on the importance of a system of management controls. For example:

- Headquarters, U.S. Army Training and Doctrine Command implemented a management control web site designed to aid administrators in the management control process as well as training. The web site includes a separate form for administrators to share management control weaknesses anonymously. A Senior Level Steering Group reviews the submitted weaknesses to determine materiality and then posts results so that personnel can

determine whether or not to submit the weakness to the next higher command.

- Headquarters, U.S. Army Personnel Command developed an online system named "Patriot". This enables administrators to offer training, message boards, news sites, system reporting and querying features, and technology support. The training site requires a passing grade before it will provide a training certificate and allows the administrator to ensure all personnel have successfully completed the training.

However, we did find that a more robust implementation at local commands would improve the Army's Management Control Program. Improvements such as ensuring management control responsibilities are in managers' performance agreements and supporting management control evaluations with documented tests of controls would make the program stronger. Although improvements were needed, the issues we identified were not significant enough to change our overall conclusion on the effectiveness of the Army's management control process.

AR 11-2 (Management Control) requires DA functional proponents to identify the areas that should have key management controls evaluated. The regulation also requires the functional proponent to publish the key management controls, usually in the form of evaluation checklists, in its Army regulations. During FY 03, we found that the functional proponents had published management control evaluations in their key regulations.

I have concluded that the Army continues in its efforts to ensure that a system of management controls exists in accordance with the law and applicable implementing guidance. My overall conclusion is based on the results of specific reviews done for 28 assessable units at 7 activities, and 70 Army Audit Agency reports issued during FY 03 that included an objective that addressed whether Army regulations identified key management controls. The annual review didn't identify problems that materially affect your annual assurance statement for the Secretary of Defense on the status of internal accounting and administrative controls in the Army.

THOMAS DRUZGAL
Acting The Auditor General

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